

Spectra Inc.

Interim Consolidated Financial Statements

June 30, 2007

Canadian Dollars

(Unaudited - See Notice of No Auditor Review)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, Subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited financial statements of Spectra Inc. have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Spectra Inc.
Consolidated Balance Sheet
June 30, 2007
Canadian Dollars

	June 30, 2007	Dec. 31, 2006
Assets		
Current assets:		
Bank	\$ 435,424	\$ 7,884
Accounts receivable	49,134	74,136
Inventory (Note 1,3)	119,670	80,223
Prepaid expenses	<u>20,882</u>	<u>13,222</u>
	<u>625,110</u>	<u>175,465</u>
Capital assets:		
Capital assets at cost: (Note 4)	188,449	177,388
Less: accumulated amortization	<u>107,221</u>	<u>104,861</u>
	<u>81,228</u>	<u>72,527</u>
Other assets:		
Other assets at cost (Note 5)	1,154,111	1,021,411
Less: accumulated amortization	<u>822,872</u>	<u>804,874</u>
	<u>331,239</u>	<u>216,537</u>
Total Assets	<u>\$1,037,577</u>	<u>\$ 464,529</u>

Prepared Without Audit
See The Accompanying Notes

Spectra Inc.
Consolidated Balance Sheet
June 30, 2007
Canadian Dollars

	June 30, 2007	Dec. 31, 2006
Liabilities		
Current liabilities:		
Current portion of long term liabilities (Note 6)	\$ 100,000	\$ 101,073
Accounts payable and accrued liabilities	<u>1,262,754</u>	<u>1,427,576</u>
	<u>1,362,754</u>	<u>1,528,649</u>
Long-term liabilities, net (Note 6)	<u>1,043,625</u>	<u>976,838</u>
Total liabilities	<u>2,406,379</u>	<u>2,505,487</u>

Shareholders' Deficiency

Capital account: (Note 7)		
Authorized – unlimited common and preference shares		
Issued – common and preference shares	5,498,675	4,376,888
Stock Based Compensation Equity	48,235	24,435
Deficit	<u>(6,915,712)</u>	<u>(6,442,281)</u>
	<u>(1,368,802)</u>	<u>(2,040,958)</u>
Total Liabilities and Shareholders' Equity	<u>\$1,037,577</u>	<u>\$ 464,529</u>

Approved by the Board:

“Andrew Malion” Director

“Michael Faye” Director

Prepared Without Audit
See The Accompanying Notes

Spectra Inc.
Consolidated Statement Of Operations And Deficit
Canadian Dollars

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Revenues	\$ 150,911	\$ 271,982	\$ 354,534	\$ 416,321
Cost of revenue	<u>93,250</u>	<u>143,328</u>	<u>172,552</u>	<u>203,650</u>
Gross profit	<u>57,661</u>	<u>128,654</u>	<u>181,982</u>	<u>212,671</u>
Selling, general and administrative expenses:				
Advertising	372	532	680	802
Selling expenses	17,831	23,763	32,164	40,231
Amortization (Note 4,5)				
- capital assets	1,736	1,755	2,360	2,521
- other assets	11,833	30,220	17,796	60,215
Professional fees (Note 9)				
- legal	56,696	4,186	60,044	6,839
- audit and accounting	23,937	10,214	26,937	16,214
- trustee and filing fees	10,079	10,911	17,212	17,445
Investor relations	15,000	-	25,000	-
Financing fees	16,225	-	16,225	-
Office and general	15,932	14,728	30,778	27,673
Premises	14,452	14,285	30,482	30,172
Subcontract labour	19,180	19,180	35,620	35,620
Interest and bank charges				
- long term debt	13,631	14,924	28,549	29,780
- bank charges and other	265	696	929	1,354
Administration	104,633	75,000	154,633	75,000
Stock based compensation	99,087	9,359	99,087	9,359
Consultants	12,000	9,000	24,000	18,974
Commission	5,064	5,747	10,191	10,557
Royalty debenture	18,570	25,099	37,500	43,849
Royalties	413	-	2,118	-
Bad debts	-	-	408	-
ISO registration	<u>2,700</u>	<u>1,700</u>	<u>2,700</u>	<u>1,700</u>
	<u>460,224</u>	<u>271,299</u>	<u>655,413</u>	<u>428,305</u>
Net loss from operations	(402,563)	(142,645)	(473,431)	(215,634)
Deficit, beginning	<u>(6,513,149)</u>	<u>(6,016,801)</u>	<u>(6,442,281)</u>	<u>(5,943,812)</u>
Deficit, ending	<u>\$(6,915,712)</u>	<u>\$(6,159,446)</u>	<u>\$(6,915,712)</u>	<u>\$(6,159,446)</u>
Earnings (loss) per share basic (Note 7,9)	(0.009)	(0.003)	(0.010)	(0.005)
Earnings (loss) per share fully diluted	(0.007)	(0.003)	(0.008)	(0.005)

Prepared Without Audit
See The Accompanying Notes

Spectra Inc.
Consolidated Statement of Cash Flow
Canadian Dollars

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Operating Activities:				
Loss from operations	\$ (392,352)	\$ (127,216)	\$ (447,162)	\$ (184,855)
Interest paid	(13,631)	(15,429)	(28,549)	(30,779)
Amortization	<u>12,547</u>	<u>31,974</u>	<u>20,156</u>	<u>63,376</u>
	<u>(393,526)</u>	<u>(110,671)</u>	<u>(455,555)</u>	<u>(152,258)</u>
Decrease (increase) in accounts receivable	33,502	(156,275)	25,002	(134,832)
Decrease (increase) in inventory	877	(10,123)	(39,447)	9,349
Decrease (increase) in prepaid expenses	(10,323)	12,776	(7,660)	15,706
Increase (decrease) in accounts payable	<u>(151,792)</u>	<u>189,161</u>	<u>(164,821)</u>	<u>195,386</u>
Cash from (to) operations	<u>(521,262)</u>	<u>(75,132)</u>	<u>(642,481)</u>	<u>(66,649)</u>
Investment Activities:				
Increase in capital assets	(1,390)	-	(11,060)	-
Increase in other assets	<u>(125,980)</u>	<u>(11,260)</u>	<u>(130,220)</u>	<u>(13,050)</u>
	<u>(127,370)</u>	<u>(11,260)</u>	<u>(141,280)</u>	<u>(13,050)</u>
Financing Activities:				
Increase (decrease) in other loans	(37,813)	1,499	65,714	2,664
Stock based compensation	99,087	9,359	99,087	9,359
Share capital	<u>987,500</u>	<u>73,555</u>	<u>1,046,500</u>	<u>73,355</u>
	<u>1,048,774</u>	<u>84,413</u>	<u>1,211,301</u>	<u>85,578</u>
Change in cash resources	400,142	(1,979)	427,540	5,879
Cash resources (deficiency), beginning of period	<u>35,282</u>	<u>12,301</u>	<u>7,884</u>	<u>4,443</u>
Cash resources (deficiency), end of period	<u>\$ 435,424</u>	<u>\$ 10,322</u>	<u>\$ 435,424</u>	<u>\$ 10,322</u>

Prepared Without Audit
See The Accompanying Notes
Spectra Inc.

Notes to Consolidated Financial Statements
June 30, 2007
Canadian Dollars

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

1. Nature of Business and Basis of Presentation:

Nature of Business –

Spectra Inc. is a manufacturing and marketing company incorporated under the laws of the Province of Ontario on December 18, 1996. The Company operates in one market segment – bus and truck transportation safety equipment. The Company manufactures and markets brake monitoring equipment as an after market product through transportation dealers, distributors and direct sales to fleet operators.

Basis of Presentation –

These financial statements have been prepared on a going concern basis which presumes the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future.

The Company has experienced operating losses and at June 30, 2007 has a working capital deficiency of \$ 737,644 (December 31, 2006 \$ 1,353,183). The Company's ability to continue operations is dependent upon its ability to achieve profitability, maintain current financing and obtain new sources of financing. The outcome of these matters cannot be predicted at this time. The financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue operations.

2. Significant Accounting Policies:

The management of Spectra Inc. has prepared these interim financial statements in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Disclosure of the interim financial statements does not conform in all respects to the requirements of GAAP for annual statements. These statements follow the same accounting policies and methods of application as the annual financial statements for the twelve month period ending December 31, 2006. These statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2006. The Company follows accounting policies generally accepted in Canada.

Notes to Consolidated Financial Statements
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The following is a summary of significant accounting policies used in the preparation of these financial statements:

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Spectra Products Inc. All significant inter-company balances and transactions have been eliminated on consolidation.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Stock-Based Compensation:

Executives and certain senior managers of the Company participate in the stock-based compensation plan, as described in note 8. The Company has adopted the recommendations of CICA Section 3870, "Stock-based Compensation and Other Stock-based Payments". These recommendations require that compensation for all equity based awards made to non-employees and employees be measured and recorded in the consolidated financial statements at fair value. The fair value of stock based compensation is determined using the Black-Scholes option pricing model. The resulting value is charged against income over the vesting periods of the option. The Company values options based on the trading price of the Company's common shares on the date of the grant.

Inventory:

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. Cost consists of raw material and direct labour.

Capital Assets:

Capital assets are carried at cost. Amortization is provided over the assets estimated useful life as follows:

Dies and molds - units of production method
Furniture and fixtures - 20 % declining balance method
Computer equipment - 30 % declining balance method
Plant equipment - 20 % declining balance method

Spectra Inc.

Notes to Consolidated Financial Statements
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Annually, or more frequently as circumstances require, (such as a decrease in sales prices, an increase in operating costs), reviews are undertaken to evaluate the carrying values of capital assets. Effective January 1, 2004 the Company prospectively adopted the requirements of CICA 3063 "Impairment of Long-lived Assets" to evaluate impairment. If it is determined that the future cash flows from a property are less than its carrying value, a write-down to the estimated fair value is made with a charge to earnings. Adoption of CICA 3063 had no effect on these financial statements.

The Company's estimated of future cash flows are subject to risks and uncertainties. It is reasonably possible that changes in estimates could occur which may affect the expected recoverability of the Company's investment in capital assets.

Other Assets:

Other assets are carried at cost. Amortization is provided over the assets estimated useful life as follows:

- | | |
|----------------------------|--|
| Patents and Product Rights | - Straight line method over the term of the asset. |
| Prototypes | - Straight line, 3 years. |
| Finance fee | - Straight line over term of debenture. |
| Prepaid Royalty | - straight line over original term of royalty agreement. |

Revenue recognition:

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to the customer at the time of delivery of the product to a common carrier. Revenue is recognized upon delivery, provided that fulfillment of acceptance criteria can be demonstrated prior to shipment.

Financial instruments:

The Company's financial instruments consist of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and loans payable. Unless otherwise stated the fair value of the financial instruments approximates their carrying value.

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Earnings per share:

Basic earnings per share is calculated based on the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method based on the weighted average number of shares that would have been outstanding during the year had all the dilutive options been exercised at the beginning of the year, or date of issuance if later, and assuming that option proceeds would be used to purchase common shares at the average market price during the year. As of each year ended there were no dilutive common equivalent shares.

3. Inventory:

Inventory consists of:

	June 30, <u>2007</u>	December 31, <u>2006</u>
Product for resale	\$ 27,248	\$ 7,678
Raw materials	<u>92,422</u>	<u>72,545</u>
	<u>\$ 119,670</u>	<u>\$ 80,223</u>

4. Capital Assets:

Capital assets consist of:

	June 30, <u>2007</u>			Dec 31, <u>2006</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
Dies and molds	\$ 120,078	\$ 49,496	\$ 70,582	\$ 59,519
Furniture & fixtures	24,731	21,307	3,424	3,805
Computer equipment	13,068	12,078	990	2,277
Plant & equipment	<u>30,572</u>	<u>24,340</u>	<u>6,232</u>	<u>6,926</u>
	<u>\$ 188,449</u>	<u>\$ 107,221</u>	<u>\$ 81,228</u>	<u>\$ 72,527</u>

Amortization of capital assets consists of:

	June 30, <u>2007</u>	June 30, <u>2006</u>
Office furniture and fixtures	\$ 380	\$ 464
Machinery, plant and equipment	693	593
Computers	1,287	432
Dies and molds	<u>-</u>	<u>1,032</u>
	<u>\$ 2,360</u>	<u>\$ 2,521</u>

Spectra Inc.

Notes to Consolidated Financial Statements
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5. Other Assets:

Other assets include development costs which have been deferred and will be charged to future operations.

Other assets consist of:

	June 30, 2007			Dec. 31, 2006
	Cost	Accumulated Amortization	Net	Net
Patent and trademarks	\$ 497,888	\$ 496,437	\$ 1,451	\$ 1,612
Product rights	43,000	17,401	25,599	1,800
Prototypes	147,473	113,888	33,585	30,303
Royalty Deb. Finance Fee	68,388	13,678	54,710	56,990
Royalty debenture	150,000	29,168	120,832	125,832
DVOF loan bonus	97,500	2,438	95,062	-
Prepaid Royalty Brake Safe Inc.	149,862	149,862	-	-
	<u>\$1,154,111</u>	<u>\$ 822,872</u>	<u>\$ 331,239</u>	<u>\$216,537</u>

Amortization of other assets consists of:

	June 30, <u>2007</u>	June 30, <u>2006</u>
Product rights – Brake Safe	\$ 1,201	900
Patent and trademarks	161	1,524
Prototype	6,767	20,259
Prepaid Royalty, Royalty Debenture, DVOF loan bonus	7,387	37,532
	<u>\$ 15,516</u>	<u>\$ 60,215</u>

6. Loans Payable:

Loans from management total \$ 466,179 and bear interest at 9.0% per annum. These loans are secured with a general security agreement including a fixed charge on the Schandelmier patent. The management loans are repayable 366 days after demand.

Notes to Consolidated Financial Statements
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On August 6, 2004 Spectra Inc. closed a debenture financing arrangement with Dynamic Venture Opportunities Fund Ltd. (“DVOF”), an Ontario labour-sponsored venture capital fund, whereby DVOF advanced \$ 750,000 to Spectra Inc.’s wholly-owned subsidiary, Spectra Products Inc. (“SPI”). In consideration of the advance of these funds, DVOF is entitled to receive royalty payments equal to the greater of \$ 100,000 per annum or 10% of the total annual gross revenue generated by SPI. Twenty-five percent of each royalty payment shall be allocated against the principal amount of the debenture. The royalty payment shall continue at 10% of SPI’s gross revenue until the earlier of (i) the date that the Royal Debenture has been fully repaid; and (ii) 15 years from issue date, at which time any remaining principal amount shall be due. As additional consideration, Spectra Inc. issued 3,000,000 bonus shares to DVOF at a deemed price of \$0.05 per share, representing a deemed value equal to 20% of the \$ 750,000 invested. The balance at June 30, 2007 is \$ 677,446.

The minimum amount due in each of the next five years is as follows:

	2007	\$ 100,000		
	2008	100,000		
	2009	100,000		
	2010	100,000		
	2011	100,000		
	Thereafter	177,446		
			June 30,	December 31,
			<u>2007</u>	<u>2006</u>
Management loans		\$ 466,179	\$ 386,892	
TD Canada Trust		-	1,073	
Dynamic Venture Opportunities Fund		<u>677,446</u>	<u>689,946</u>	
		1,143,625	1,077,911	
Less current portion		<u>100,000</u>	<u>101,073</u>	
		<u>\$ 1,043,625</u>	<u>\$ 976,838</u>	

Notes to Consolidated Financial Statements
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7. Capital Account:

Authorized share capital - unlimited number of common voting shares, first, second, third and fourth preference shares.

Issued share capital:

	06/30/07	12/31/06
46,881,837(2006 – 39,536,837) common shares for	\$4,636,439	\$4,189,939
90,000 (2005- 90,000) Spectra preference shares for	27,000	27,000
Warrants	85,236	9,949
Stock Based Compensation Equity	<u>48,235</u>	<u>24,435</u>
	<u>\$4,796,910</u>	<u>\$4,251,323</u>
	#	\$
Common shares issued December 31, 2005	35,966,837	4,026,098
Issued during 2006	<u>3,570,000</u>	<u>163,841</u>
Balance, December 31, 2006	39,536,837	4,189,098
Issued during 2007	<u>7,345,000</u>	<u>446,500</u>
Balance, June 30, 2007	<u>46,881,837</u>	<u>4,636,439</u>

Stock Options

The Company has a stock option plan that permits the grant of options to directors, officers, employees and consultants. The plan provides for the grant of a maximum number of options equal to ten percent of issued and outstanding common shares issued with maximum term of five years, fully vested at date of grant. The table below lists total options granted to date for the period ended June 30, 2007. There were 1,500,000 Options granted in the second quarter of 2007.

Expiry Date	Number of Options	Exercise Price
03/02/08	450,000	\$0.10
08/31/10	950,000	\$0.10
10/11/10	125,000	\$0.10
05/09/09	350,000	\$0.10
05/09/12	1,150,000	\$0.10
Total Options	3,025,000	\$0.10*
* Weighted average exercise price		

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Warrants

On May 11, 2007, the Company closed a private placement of 4,745,000 units consisting of one common share at a deemed price of \$0.05 per share and one warrant redeemable until May 10, 2009 for one common share of the Company at a price of \$0.10 per share. The warrants are valued at \$75,287 using the Black-Scholes evaluation method. The Company has 6,315,000 warrants outstanding as at June 30, 2007.

Private Placement

On May 28, 2007, the Company closed a non-brokered private placement of 4,745,000 units at a price of \$0.05 per unit for gross proceeds of \$ 237,250. Each unit is comprised of one share in the capital of Spectra and one non-transferable share. Each share purchase warrant entitles the holder to purchase one additional common share of Spectra for a period of 24 months from closing at an exercise price of \$0.10 per share. The Company has issued 4,745,000 common shares regarding this transaction.

On June 1, 2007 the Company's wholly owned subsidiary, Spectra Products Inc., ("Spectra Products") completed a \$750,000 private placement with Dynamic Venture Opportunities Fund Ltd. ("Dynamic") a labour sponsored venture capital fund. Spectra Products issued 750 convertible preferred shares at a deemed value of \$1,000 per share (the "Shares") to Dynamic. The Shares will pay a 6 percent annual dividend commencing January 1, 2008 and are convertible into common shares of Spectra Products. Dynamic has received a warrant to subscribe to additional convertible preferred shares exercisable until June 30, 2008 with the same conversion provisions as the Shares. Spectra holds all issued and outstanding common shares of Spectra Products. The Shares held by Dynamic are convertible into a 25 percent equity interest in Spectra Products. By exercising the warrant and converting the convertible preferred shares, Dynamic could increase its equity interest in Spectra Products by an additional 15 percent. The Company issued bonus shares of 1,500,000 common shares to Dynamic at a deemed price of \$0.065 per share.

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8. Income Taxes:

The Company has income tax losses available for carry forward of \$ 3,473,429. Losses expire as follows:

2007	373,125
2008	583,363
2009	526,948
2010	643,521
2011	452,556
2012	407,861
2013	<u>486,055</u>
	3,473,429

The potential benefit of these losses have not been recognized in the accounts.

9. Earnings per share:

Earnings per share for the last full fiscal year is as follows:

	2006
Earnings (loss) per share basic	\$ (.01)
Earnings (loss) per share (fully diluted)	\$ (.01)

10. Commitments:

The company is obligated under an operating lease for premises until February 28, 2010 as follows:

2007	\$ 50,825
2008	53,699
2009	53,857
2010	<u>53,857</u>
	<u>\$ 212,238</u>

